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UNITED STATES DISTRICT COURT

FOR THE SOUTHERN DISTRICT OF CALIFORNIA

JENS ERIK SORENSEN, as Trustee of SORENSEN RESEARCH AND DEVELOPMENT TRUST,

Plaintiff

v.

SANYO NORTH AMERICA CORPORATION, a Delaware Corporation; and DOES 1 – 100,

Defendants.

Case No. 08-cv-0135 BTM (CAB)

DEFENDANT SANYO NORTH AMERICA CORPORATION'S MEMORANDUM IN SUPPORT OF MOTION TO STAY THE LITIGATION PENDING REEXAMINATION OF U.S. PATENT NO. 4,935,184.

Date: May 30, 2008
Time: 11:00 a.m.
Courtroom 15, Fifth Floor
Hon. Barry Ted Moskowitz

NO ORAL ARGUMENT UNLESS REQUESTED BY THE COURT

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FEDERAL CASES

Defendant Sanyo North America Corporation ("Sanyo") respectfully moves to stay this case pending the United States Patent and Trademark Office's ("PTO") reexamination of the sole patent asserted in this case, U.S. Patent No. 4,935,184 ("the '184 patent").

MEMORANDUM OF LAW

I. INTRODUCTION

The present action should be stayed pending the outcome of two reexaminations of the '184 patent which is currently before the PTO. Before Plaintiff Jens Erik Sorensen ("Sorensen") filed his Complaint in the present action, the PTO ordered the '184 patent into reexamination based on eight prior art references. In its Order, the PTO: (a) determined that there was a substantial likelihood that a reasonable examiner would consider the teachings of the references important in deciding whether certain claims were patentable, and (b) identified fourteen substantial new questions of patentability as to certain claims that had not been decided in any previous examination of the patent. *See* Declaration of Scott M. Daniels in Support of Sanyo's Motion to Stay (the "Daniels Decl."), ¶ 2, Ex. A. Since then, the '184 patent has become the subject of a second reexamination ordered by the PTO based on nine prior art references (eight of which are in addition to the eight references submitted in connection with the first reexamination.) *Id*. at ¶ 3, Ex. B. Based on the reexamination proceedings before the PTO, at least two district courts, including this Court, have stayed litigations involving the '184 patent. *Id.* at ¶¶ 4-5 and 9-12, Exs. C, D and H-K.

For at least the following reasons, the Court should stay this case until the PTO completes its reexamination of the '184 patent and determines whether each claim asserted in this lawsuit remain valid. This Court has already found it appropriate to stay a similar action involving the same patent. *Id*. at ¶ 5 and 9-12, Ex. D and H-K. As described below in more detail, the same considerations that supported this Court's decision to order a stay in at least *Jens Erik Sorensen v. The Black & Decker Corp., et*

al., Case No. 06cv1572 (S.D. Cal. Sept. 10, 2006), are present in this case. *See id.*

First, a stay will promote judicial economy and consistency. Some or all of the '184 patent claims may be cancelled or amended during reexamination. In light of the fact that this case has barely begun, it would be inefficient to set a schedule, conduct discovery, conduct a *Markman* hearing, or conduct a trial on claims that ceased to exist, or no longer exist in their present form. If some claims do survive reexamination but are subject to limiting amendments or statements, the scope of the subject matter in this case could significantly change. Any such change could have an effect on what is discoverable in this case. Because the parties have not yet begun discovery, the PTO should be allowed to complete its reexamination of the '184 patent before the parties and the Court expend resources on this case. Staying this case will also preserve consistency among the various litigations presently pending[1]. Of these

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[1] *Jens Erik Sorenson as Trustee of Sorensen Research and Development Trust v. Ryobi Tech., Inc. et al.,* Case No. 3:08-cv-0070-BTM-CAB filed Jan. 11, 2008 (S.D.Cal.); *Jens Erik Sorenson as Trustee of Sorensen Research and Development Trust v. Senco Products, Inc.,* Case No. 3:08-cv-0071-BTM-CAB filed Jan. 11, 2008 (S.D.Cal.); *Jens Erik Sorenson as Trustee of Sorensen Research and Development Trust v. Emerson Electric Co., et al.,* Case No. 3:08-cv-0060-BTM-CAB filed Jan. 10, 2008 (S.D.Cal.); *Jens Erik Sorenson as Trustee of Sorensen Research and Development Trust v. Johnson Level & Tool Mfg. Co., Inc.,* Case No. 3:08-cv-0025-BTM-CAB filed Jan. 04, 2008 (S.D.Cal.); *Jens Erik Sorenson as Trustee of Sorensen Research and Development Trust v. Energizer Holdings, Inc. et al.,* Case No. 3:07-cv-2321-BTM-CAB filed Dec. 11, 2007 (S.D.Cal.); *Jens Erik Sorenson as Trustee of Sorensen Research and Development Trust v. Giant Intl., Inc. et al.,* Case No. 3:07-cv-2121-BTM-CAB filed Nov. 06, 2007 (S.D.Cal.); *Jens Erik Sorenson as Trustee of Sorensen Research and Development Trust v. Esseplast (USA) NC, Inc. et al.,* Case No. 3:07-cv-2277-BTM-CAB filed Dec. 04, 2007 (S.D.Cal.); *Jens Erik Sorenson as Trustee of Sorensen Research and Development Trust v. Helen of Troy Texas Corp. et al.,* Case No. 3:07-cv-2278-BTM-CAB filed Dec. 04, 2007 (S.D.Cal.); *Jens Erik Sorenson as Trustee of Sorensen Research and Development Trust v. The Black & Decker Corp. et al.,* Case No. 3:06-cv-1572-BTM-CAB filed August 07, 2006 (S.D.Cal.); *Jens Erik Sorenson as Trustee of Sorensen Research and Development Trust v. Lexar Media, Inc.,* Case No. 5:08-cv-00095-JW filed Jan. 07, 2008 (N.D.Cal.); *Jens Erik Sorenson as Trustee of Sorensen Research and Development Trust v. Ampro Tools Corp.,* Case No. 4:08-cv-00096-CW filed Jan. 07, 2008 (N.D.Cal.); *Jens Erik Sorenson as Trustee of Sorensen Research and Development Trust v. First Intl. Digital, Inc. et al.,* Case No. 3:07-cv-5525-JSW filed Oct. 30, 2007 (N.D.Cal.); *Jens Erik Sorenson as Trustee of Sorensen Research*

litigations, at least two are stayed pending the reexamination of the '184 patent.

Second, a stay would simplify or clarify the issues in this case. If some or all of the '184 patent claims presently in reexamination are found invalid by the PTO, the Court will not need to address issues related to infringement, validity or enforceability of those claims. Furthermore, for any claims that may survive reexamination, statements made by Sorensen in response to the reexamination will be highly relevant and instructive to the proper construction of any remaining patent claims. A stay would also simplify issues relating to any alleged damages in this case as Sorensen will not be entitled to recover damages for past infringement of claims that are cancelled or amended during reexamination. Given that the patent expired on February 5, 2008, a stay is particularly appropriate.

Third, a stay would not prejudice Sorensen. The '184 patent expired on February 5, 2008 – less than two weeks after Sorensen filed its Complaint and before Sorensen even served the Complaint on Sanyo. Moreover, Sorensen does not compete with Sanyo in the marketplace, and in fact does not make or sell any products whatsoever – its business apparently only relates to asserting the patent-in-suit. As such, Sorensen may only seek to recover past damages based on a reasonable royalty and thus can be adequately compensated through monetary damages for any purported harm caused by a stay of this litigation. Additionally, the PTO aims to complete examination of *ex parte* re-examinations such as the ones in question within two years. Examination proceedings in the re-examinations are already well underway.

Fourth, Sanyo's Motion comes at the inception of this case. In fact, Sanyo filed its motion contemporaneously with its Answer. Thus, this Motion is timely and not a dilatory tactic.

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and Development Trust v. Digital Networks North America, Inc. et al., Case No. 3:07-cv-5568-JSW filed Nov. 01, 2007 (N.D.Cal.); *American Safety Razor Co. v. Sorensen Research & Development Trust*, Case No. 07-CV-00730-HHK filed April 20, 2007 (D.D.C.); *PowerStation LLC, et al. v. Sorensen Research and Development Trust*, Case No. 07-CV-04167-RBH filed Dec. 31, 2007 (D.S.C.).

In sum, the relevant factors in this case favor granting Sanyo's Motion to Stay.

II. PROCEDURAL HISTORY

A. The Reexamination Proceedings

On July 30, 2007 Black & Decker (U.S.), Inc. ("B&D") requested a third party reexamination of the '184 patent. Daniels Decl., ¶ 9, Ex. G. The PTO assigned the reexamination request application/control number 90/008,775 (the "'775 re-exam"). *Id.* at ¶ 2, Ex. A. On October 11, 2007 the PTO agreed with B&D's request and ordered a reexamination of claims 1, 2, 4, and 6-10 of the '184 patent. *Id.* In its order, the PTO determined that there is a substantial likelihood that a reasonable examiner would consider the teachings of eight prior art references important in deciding whether or not certain claims were patentable. *Id.* at ¶¶ 2 & 6, Exs. A & E. Based on the eight references, the PTO identified fourteen substantial new questions of patentability related to the '184, that is, fourteen reasons to potentially reject some or all of the claims in reexamination. *Id.* at ¶ 2, Ex. A.

On December 21, 2007 Phillips Plastics Corp. and Hi-Tech Plastics, Inc. filed a second third party request for reexamination of the '184 patent. *Id.* at ¶¶ 3 & 7, Exs. B & F. On February 21, 2008, the PTO agreed with Phillips' request and ordered a reexamination of claims 1, 2, 4, and 6-10 of the '184 patent. *Id.* at ¶3, Ex. B. In its order, the PTO determined that there is a substantial likelihood that a reasonable examiner would consider the teachings of nine prior art references important in deciding whether or not certain claims were patentable. *Id.* at ¶¶ 3 & 7, Exs. B & F. Based on the nine references, the PTO identified nine substantial new questions of patentability related to the '184 patent, that is, nine reasons to potentially reject some or all of the claims in reexamination. *Id.* at ¶ 3, Ex. B.

B. This Case Is Still in the Early Stages and Discovery Has Yet to Begin

Despite the activity surrounding the '184 patent before the PTO, Sorensen filed this suit on January 23, 2008 accusing Sanyo of infringing the '184 patent. On

April 9, 2008, contemporaneously with this Motion, Sanyo filed its Answer. This Court has not yet issued a scheduling order.

III. ARGUMENT

A. The Court Has Broad Discretion to Grant a Stay Pending Reexamination of the Patent-In-Suit

A district court has the inherent power to stay litigation pending resolution of reexamination proceedings before the PTO. *See Landis v. N. Am. Co.*, 299 U.S. 248, 254 (1936); *Gould v. Control Laser Corp.*, 705 F.2d 1340, 1342 (Fed. Cir. 1983); *Ethicon v. Quigg*, 849 F.2d 1422, 1426-27 (Fed. Cir. 1988). Indeed, "there is a liberal policy in favor of granting motions to stay proceedings pending the outcome of USPTO reexamination . . . proceedings." *ASCII Corp. v. STD Entm't USA*, 844 F. Supp. 1378, 1381 (N.D. Cal. 1994) (stay granted); *see also Direct Imaging Sys., Inc. v. U.S. Graphic Arts, Inc.*, 2007 WL 778633, at *1 (M.D. Fla. Mar. 12, 2007) ("the sponsors of the patent reexamination legislation clearly favored the liberal grant of stays . . . .") (quoting *Lentek Int'l, Inc. v. Sharper Image Corp.*, 169 F. Supp. 2d 1360, 1362 (M.D. Fla. 2001)).

Some of the factors courts consider when deciding whether to stay a case pending reexamination are: (1) whether a stay will promote judicial economy; (2) whether a stay will simplify the issues in question and trial of the case; (3) whether a stay will unduly prejudice the non-moving party; and (4) the stage of the litigation when the stay request is made. *See, e.g., Ho Keung Tse v. Apple, Inc.*, 2007 WL 2904279, *2 (N.D. Cal. 2007); *Direct Imaging Sys., Inc.*, 2007 WL 778633, at *2; *KLA-Tencor Corp. v. Nanometrics, Inc.*, 2006 WL 708661, **2-5 (N.D. Cal. 2006); and *Xerox Corp. v. 3Com Corp.*, 69 F. Supp. 2d 404, 406 (W.D.N.Y. 1999).

"A stay is particularly justified where the outcome of the reexamination would be likely to assist the court in determining patent validity and, if the claims were cancelled in the reexamination, would eliminate the need to try the infringement case." *In re Cygnus Telecomms. Tech., LLC, Patent Litig.*, 385 F. Supp. 2d 1022,

1024 (N.D. Cal. 2005).

B. The Court Should Exercise Its Discretion to Stay Litigation of the '184 patent

In this case, each of the factors enumerated above support granting Sanyo's instant motion to stay.

1. A Stay in This Case Promotes Judicial Economy and Consistency

a. The Stay Promotes Judicial Economy

A stay of the current litigation promotes judicial economy because the Court would avoid holding a *Markman* hearing and trial, and attendant discovery issues, relating to patent claims that may be cancelled or amended during the PTO's reexamination of the patent-in-suit. Importantly, claims that are eliminated during reexamination are treated as if they never issued and cannot be asserted in litigation. *See Gould*, 705 F.2d at 1342. Likewise, claims that are substantively amended during reexamination are treated as if they issued at the end of reexamination, such that damages for infringement of those claims begin to accrue only after issuance of the reexamination certificate. *See Bloom Eng'g Co. v. N. Am. Mfg. Co.*, 129 F.3d 1247, 1250 (Fed. Cir. 1997). Accordingly, absent a stay, a court likely will waste time and resources construing and trying patent claims that may be eliminated or amended during reexamination. *See Target Therapeutics, Inc. v. SciMed Life Sys.*, 33 U.S.P.Q.2d 2022, 2023 (N.D. Cal. 1995) (without a stay, a court may waste time examining validity of claims modified or eliminated in reexamination); *Tap Pharm. Prods. v. Atrix Labs., Inc.*, 2004 WL 422697, at *2 (N.D. Ill. 2004) (same; noting the PTO invalidates claims in 10% of reexaminations and amends the claims in 64% of reexaminations).

Staying this case now will also promote judicial economy because the case is at a very early stage. Discovery on the merits has not yet begun and no *Markman* hearing has been scheduled. Because neither the Court nor the parties have yet

expended significant resources in this case, the Court should stay this matter and allow the reexamination to run its course.

b. The Stay Promotes Consistency

This Court has already stayed several litigations involving the '184 patent. Daniels Decl., ¶¶ 3 and 9-12, Exs. B and H-K. In addition, another court in the Northern District of California also stayed a litigation in which the '184 patent is alleged to have been infringed. *Id.* at ¶ 4, Ex. C. In granting Sanyo's request for a stay, the Court would be promoting consistency.

2. The Stay Simplifies the Issues in This Case

Staying litigation concerning the '184 patent would also simplify the issues related to the patent. As discussed above, issues of validity, infringement, unenforceability and damages may be significantly narrowed or eliminated during the PTO's reexamination because some or all of the claims may be cancelled or amended. Even if some of the claims survive, Sorensen would certainly attempt to distinguish the claims of the '184 patent from the new prior art during reexamination. Such statements would be highly relevant to the proper construction of any surviving claims. *See C.R. Bard, Inc. v. U.S. Surgical Corp.*, 388 F.3d 858, 867-69 (Fed. Cir. 2004) (citing statements made by patentee during reexamination to support the district court's claim construction and judgment of non-infringement).

In addition, the PTO's analysis of the prior art during reexamination would help narrow the validity issues in this case and provide the Court with the PTO's understanding of the prior art. *See Direct Imaging Sys., Inc.*, 2007 WL 778633, at *3 ("A stay will allow both the parties and the Court to take advantage of the PTO's expert analysis of the [patent-at-issue] and may limit or narrow the remaining issues to be litigated."). A stay will also simplify the damages issues in this case because Sorensen will not be able to seek past damages for claims cancelled or amended during reexamination. *See Bloom Eng'g Co.*, 129 F.3d at 1250. Finally, because some of the prior art forming the basis for the PTO's reexamination order will also be

relied upon by Sanyo in this case, staying litigation pending completion of the reexamination will provide both parties with additional information regarding the merits of their litigation positions and may promote settlement. *See GPAC, Inc. v. D.W.W. Enters., Inc.*, 144 F.R.D. 60, 65 (D. N.J. 1992) (noting that a "record of reexamination . . . may further encourage settlement without further court intervention"). The broad range of issues that would be affected and simplified as a result of the reexamination strongly supports a stay.

3. Sorensen Would Not Be Unduly Prejudiced by a Stay

Sorensen would not be prejudiced by a stay of the litigation pending the PTO's re-examination of the validity of the '184 patent. Importantly, Sorensen does not make or sell any products. *See Middleton, Inc. v. Minn. Mining & Mfg. Co.*, 2004 WL 1968669, at *9 (patentee "is not . . . selling or marketing products under its patent. Indeed, it has never done so and thus has no market to protect. Under similar circumstances, a district court found 'money damages are an adequate remedy for any delay in redress' where the patentee was not 'selling or actively licensing goods or services related to' the patent in suit.'") (citations omitted). Accordingly, because Sorensen does not compete with Sanyo, any damages for alleged infringement would be limited to a reasonable royalty.

The '184 patent expired on February 5, 2008. Even if any claims of the '184 patent survive reexamination unchanged, and are ultimately found to have been infringed by Sanyo, Sorensen suffers no further damages during the stay. As a result, money damages are sufficient to compensate Sorensen for any alleged past infringement, and Sorensen will not be prejudiced if the Court stays this action pending the reexaminations. Indeed, even if the patent were not already expired, courts have found that stays are appropriate and do not prejudice the patentee because monetary damages accrue during the stay. *See Perricone v. Unimed Nutritional Servs., Inc.*, 2002 WL 31075868 at *3 (D. Conn. 2002) (monetary damages can compensate patentee for alleged infringement during stay); *Emhart Indus., Inc. v.*

Sankyo Seiki Mfg. Co., Ltd., 1987 WL 6314 at *2 (N.D. Ill. 1987) (same). Moreover, Sorensen has no claim to injunctive relief because the '184 patent is expired. Thus, Sorenson will suffer no prejudice as a result of the stay.

Additionally, the time for the PTO to complete re-examination is reasonable and will not unduly prejudice Sorensen. According to Under Secretary of Commerce for Intellectual Property Jon Dudas, the PTO aims to conclude all *ex parte* re-examination within two years. Daniels Decl., ¶ 13, Ex. L at 12. Furthermore, the PTO plans to hire an additional 1,200 examiners per year through 2013 in order to keep up with an increasing workload. *Id.* at 3.

Finally, the first re-examination (Application No. 90/008,775) is well underway. The application was forwarded to the Examiner on March 11, 2008, and is "Ready for Examiner Action." *Id* at ¶ 14, Ex. M. The second re-examination (Application No. 90/008,976), was filed approximately five months later than the first re-examination, and presumably will be "Ready for Examiner Action" in approximately five months. *Id.* at ¶ 15, Ex. N. Therefore, the duration of the stay will likely be approximately two years, and will not unduly burden Sorenson.

4. Sanyo's Request for a Stay is Timely and Not a Dilatory Tactic

Sanyo has no dilatory motive in requesting a stay in this litigation. First, it was not Sanyo's decision to seek reexamination of the '184 patent. That decision was made even before Sorensen filed his Complaint in this litigation. Thus, Sanyo cannot be faulted for any dilatory motive for pursing the reexamination itself.

Second, Sanyo did not test the waters in this litigation before deciding to ask for a stay. Instead, Sanyo filed this motion concurrently with its Answer. Based on the PTO's identification of at least twenty-three substantial questions of patentability, it appears likely that the '184 patent will not survive reexamination. Nevertheless, Sanyo petitions the Court to stay the case and thereby allow the parties to conserve resources by not forcing litigation on issues that may shortly become moot. This is

not an instance of a party asking to stay a litigation that is going badly or is about to conclude. *Cf. Agar Corp., Inc. v. Multi-Fluid, Inc.*, 983 F. Supp. 1126, 1128 (S.D. Tex. 1997) (finding that "courts are inclined to deny a stay when the case is set for trial and the discovery phase has almost been completed."). Here, the discovery phase has not even begun.

Additionally, Sanyo attempted to cooperate with opposing counsel in order to reach a mutually acceptable agreement regarding a stay, in order to avoid the need for this motion. Daniels Decl., ¶¶ 16-19, Exs. O-R. However, Sorensen refused to stipulate to a stay, and failed to provide even a proposal as to terms for such a stay. *Id.* at ¶20, Ex. S.

Because there can be no dilatory motive on Sanyo's part, this factor also weighs in favor of granting the requested stay.

IV. CONCLUSION

Staying this case pending reexamination of the '184 patent would promote judicial economy, simplify the issues in this case, and would not unduly prejudice Sorensen. Accordingly, Sanyo respectfully requests that the Court grant Sanyo's motion to stay litigation regarding the '184 patent until the reexamination is completed.

Respectfully submitted,

Date: April 9, 2008

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